

This record is a partial extract of the original cable. The full text of the original cable is not available.

250806Z May 05

UNCLAS TAIPEI 002290

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP AND EB/IFD/OIA

USTR FOR SCOTT KI

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/ZELIKOW AND WISNER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [TW](#)

SUBJECT: Taiwan Reacts to Treasury Department's FX Report

1. In response to the U.S. Treasury Department's "Report to the Congress on International Economic and Exchange Rate Policies" released on May 17, Taiwan Central Bank Governor Perng Fai-nan sent a letter to AIT/T Director Paal. Governor Perng said that Taiwan's foreign exchange (FX) policy is not designed to pursue larger trade surplus and accumulation of FX reserves. He said that market forces determine the FX rates. He notes that the Central Bank intervenes in the FX market when the market deviates away from economic fundamentals.

2. Substantive portion of Governor Perng's letter:

BEGIN TEXT:

The US Department of Treasury released the latest "Report to the Congress on International Economic and Exchange Rate Policies" on May 17. While I have found the section on Taiwan to be both lucid and insightful, there are a couple of thoughts that I would like to share with you.

First, Taiwan's trade surplus has declined quite sharply over the past two years. The trade balance was US\$6.1 billion in surplus for 2004 as a whole. For the first four months of this year the balance on goods registered a surplus of US\$373 million, in marked contrast to the US\$2.9 billion recorded over the same period in 2004. The size of this surplus is more than offset by the estimated US\$600 million spent by Taiwanese tourists abroad every month.

Secondly, on the subject of the NT dollar exchange rate, I thought it was perhaps a little unfair and somewhat misleading to conclude the section on Taiwan by saying the Central Bank may enter the foreign exchange market to make adjustments to maintain stability as the currency strengthens. I would like to reaffirm that Taiwan's exchange rate system is managed float. The exchange rate is determined by market forces, but if it becomes more volatile than can be explained by economic fundamentals the central bank will step in to maintain dynamic stability. The central bank does not have a view on the future direction the NT dollar exchange rate, nor do we know whether the development in the foreign exchange market will necessitate our involvement going forward.

END TEXT.

PAAL